State of Wisconsin
2013 – 2014 LEGISLATURE

LRB–0747/P1
MES:sac:
RMA

DOA:......Quinn, BB0292 – Reduce individual income tax rates, increase the personal exemption, reduce standard deduction phase–out rates

FOR 2013-2015 BUDGET — NOT READY FOR INTRODUCTION

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AN ACT ...; **relating to:** reducing the individual income tax rates, increasing the personal exemption, and reducing the standard deduction phase out rate.

Analysis by the Legislative Reference Bureau

TAXATION

INCOME TAXATION

Under current law, there are five income tax brackets for single individuals, certain fiduciaries, heads of households, and married persons. The brackets are indexed for inflation. The rate of taxation under current law for the lowest bracket for single individuals, certain fiduciaries, heads of households, and married persons is 4.6 percent of taxable income; the rate for the second bracket is 6.15 percent; the rate for the third bracket is 6.5 percent; the rate for the fourth bracket is 6.75 percent; and the rate for the highest bracket is 7.75 percent.

With regard to taxable year 2012, for single individuals, certain fiduciaries, and heads of households, for example, the lowest bracket applies to taxable income of over $0 up to $10,570; the second bracket applies to taxable income over $10,570 up to $20,360; the third bracket applies to taxable income over $20,360 up to $158,500; the fourth bracket applies to taxable income over $158,500 up to $232,660; and the fifth, or top, bracket applies to taxable income over $232,660.

For taxable years beginning after December 31, 2012, this bill lowers the rate of taxation in each in each of the first three brackets; the rates in the top two brackets

6.38

remain unchanged. Under the bill, the tax rate in the lowest bracket is reduced from 4.60 percent to 4.50 percent; the rate in the next higher bracket is reduced from 6.15 percent to 5.95 percent; the rate in the next higher bracket is reduced from 6.50 percent to ~~[illegible]~~ percent. The brackets will continue to be indexed for inflation as is the case under current law.

Under current law, an individual income tax personal exemption exists in the amount of $700 for each taxpayer who is required to file an income tax return and $700 for the taxpayer's spouse, except if the spouse is filing separately or as a head of household. A taxpayer may also claim a $700 exemption for each dependent for whom he or she is entitled to claim an exemption under the Internal Revenue Code. In general, an additional exemption of $250 may be claimed by a taxpayer, and spouse, who has reached the age of 65 before the close of the taxable year to which his or her tax return relates.

For taxable years beginning after December 31, 2013, this bill increases the personal exemption to $1,000 for each taxpayer who is required to file an income tax return and $1,000 for the taxpayer's spouse, except if the spouse is filing separately or as a head of household. A taxpayer may also claim a $1,000 exemption for each dependent for whom he or she is entitled to claim an exemption under the Internal Revenue Code. The additional exemption amount, for taxpayers who reach the age of 65, remains unchanged.

Also under current law, the standard income tax deduction has 4 different categories, each of which has a different deduction amount based on income. The categories are based on filing status: single, head of household, married filing jointly, and married filing separately. The maximum standard deduction amounts in each category phase out as income increases, at various phase out rate percentages. This bill reduces the phase out percentages in each category. Under the bill, for taxable years beginning after December 31, 2013, for each category the phase out rate percentages change as follows: For single individuals, from 12 percent to 10.20 percent; for heads of household, from 22.515 percent to 19.138 percent; for married couple filing jointly, from 19.778 percent to 16.811 percent; for married couples filing separately, from 19.778 percent to 16.811 percent.

For further information see the ***state*** fiscal estimate, which will be printed as an appendix to this bill.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. 71.05 (22) (dp) of the statutes is amended to read:

71.05 **(22)** (dp) *Deduction limits, 2000* ~~*and thereafter*~~ <u>*to 2013*</u>. Except as provided in par. (f), for taxable years beginning after December 31, 1999, <u>and before January 1, 2014,</u> the Wisconsin standard deduction is whichever of the following amounts is appropriate. For a single individual who has a Wisconsin adjusted gross income of less than $10,380, the standard deduction is $7,200. For a single individual who has a Wisconsin adjusted gross income of at least $10,380, the standard deduction is the amount obtained by subtracting from $7,200 12% of Wisconsin adjusted gross income in excess of $10,380 but not less than $0. For a head of household who has a Wisconsin adjusted gross income of less than $10,380, the standard deduction is $9,300. For a head of household who has a Wisconsin adjusted gross income of at least $10,380, the standard deduction is the amount obtained by subtracting from $9,300 22.515% of Wisconsin adjusted gross income in excess of $10,380, but not less than $0, until the adjusted gross income amount at which the standard deduction is equal to the standard deduction for a single individual at the same adjusted gross income amount. For a head of household who has a Wisconsin adjusted gross income of more than this amount, the standard deduction shall be calculated as if the head of household were a single individual. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of less than $14,570, the standard deduction is $12,970. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of at least $14,570, the standard deduction is the amount obtained by subtracting from $12,970 19.778% of aggregate Wisconsin adjusted gross income in excess of $14,570 but not less than $0. For a married individual filing separately who has a Wisconsin adjusted gross income of less than $6,920, the standard deduction is $6,160. For a married individual filing separately who has a Wisconsin adjusted gross income of at least $6,920, the standard deduction is the amount obtained by subtracting from $6,160 19.778% of Wisconsin adjusted gross income in excess of $6,920 but not less than $0. The secretary of revenue shall prepare a table under which deductions under this paragraph shall be determined. That table shall be published in the department's instructional booklets.

SECTION 2. 71.05 (22) (dq) of the statutes is created to read:

71.05 **(22)** (dq) *Deduction limits, 2014 and thereafter.* Except as provided in par. (f), for taxable years beginning after December 31, 2013, the Wisconsin standard deduction is whichever of the following amounts is appropriate. For a single individual who has a Wisconsin adjusted gross income of less than $10,380, the standard deduction is $7,200. For a single individual who has a Wisconsin adjusted gross income of at least $10,380, the standard deduction is the amount obtained by subtracting from $7,200 ~~10.2~~ 10.20 percent of Wisconsin adjusted gross income in excess of $10,380 but not less than $0. For a head of household who has a Wisconsin adjusted gross income of less than $10,380, the standard deduction is $9,300. For a head of household who has a Wisconsin adjusted gross income of at least $10,380, the standard deduction is the amount obtained by subtracting from $9,300 19.138 percent of Wisconsin adjusted gross income in excess of $10,380, but not less than $0, until the adjusted gross income amount at which the standard deduction is equal to the standard deduction for a single individual at the same adjusted gross income amount. For a head of household who has a Wisconsin adjusted gross income of more than this amount, the standard deduction shall be calculated as if the head of household were a single individual. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of less than $14,570, the standard deduction is $12,970. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of at least $14,570, the standard deduction is the amount obtained by subtracting from $12,970 16.811 percent of aggregate Wisconsin adjusted gross income in excess of $14,570 but not less than $0. For a married individual filing separately who has a Wisconsin adjusted gross income of less than $6,920, the standard deduction is $6,160. For a married individual filing separately who has a Wisconsin adjusted gross income of at least $6,920, the standard deduction is the amount obtained by subtracting from $6,160 16.811 percent of Wisconsin adjusted gross income in excess of $6,920 but not less than $0. The secretary of revenue shall prepare a table under which deductions under this paragraph shall be determined. That table shall be published in the department's instructional booklets.

SECTION 3. 71.05 (22) (dt) of the statutes is amended to read:

71.05 **(22)** (dt) *Standard deduction indexing, 2001 and thereafter.* For taxable years beginning after December 31, 2000, the dollar amounts of the standard deduction that is allowable under par. (dp) <u>or (dq)</u> and all of the dollar amounts of Wisconsin adjusted gross income under par. (dp) <u>or (dq)</u> shall be increased each year by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August 1999, as determined by the federal department of labor, except that for taxable years beginning after December 31, 2011, the adjustment may occur only if the resulting amount is greater than the corresponding amount that was calculated for the previous year. Each amount that is revised under this paragraph shall be rounded to the nearest multiple of $10 if the revised amount is not a multiple of $10 or, if the revised amount is a multiple of $5, such an amount shall be increased to the next higher multiple of $10. The department of revenue shall annually adjust the changes in dollar amounts required under this paragraph and incorporate the changes into the income tax forms and instructions.

SECTION 4. 71.05 (22) (f) 4. a. of the statutes is amended to read:

71.05 **(22)** (f) 4. a. For taxable years beginning after December 31, 1997, in the case of a taxpayer with respect to whom an exemption under sub. (23) (b) 2. or (be) 2. is allowable to another person, the Wisconsin standard deduction shall be the lesser of the amount under subd. 4. b. or one of the amounts calculated under subd. 4. c., whichever amount under subd. 4. c. is greater.

SECTION 5. 71.05 (22) (f) 4. b. of the statutes is amended to read:

71.05 **(22)** (f) 4. b. The standard deduction that may be claimed by an individual under par. (dm) ~~or~~, (dp), or (dq), based on the individual's filing status.

SECTION 6. 71.05 (23) (b) (intro.) of the statutes is amended to read:

71.05 **(23)** (b) (intro.) For taxable years that begin after December 31, 2000, and before January 1, 2014:

SECTION 7. 71.05 (23) (be) of the statutes is created to read:

71.05 **(23)** (be) For taxable years that begin after December 31, 2013:

1. A personal exemption of $1,000 if the taxpayer is required to file a return under s. 71.03 (2) (a) 1. or 2. and $1,000 for the taxpayer's spouse, except if the spouse is filing separately or as a head of household.

2. An exemption of $1,000 for each individual for whom the taxpayer is entitled to an exemption for the taxable year under section 151 (c) of the Internal Revenue Code.

3. An additional exemption of $250 if the taxpayer has reached the age of 65 before the close of the taxable year to which his or her tax return relates and $250 for the taxpayer's spouse if he or she has reached the age of 65 before the close of the taxable year to which his or her tax return relates, except if the spouse is filing separately or as a head of household.

SECTION 8. 71.05 (23) (c) of the statutes is amended to read:

71.05 **(23)** (c) With respect to persons who change their domicile into or from this state during the taxable year and nonresident persons, personal exemptions under pars. (a) ~~and~~, (b), and (be) shall be limited to the fraction of the amount so determined that Wisconsin adjusted gross income is of federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If a person and that person's spouse are not both domiciled in this state during the entire taxable year, their personal exemptions on a joint return are determined by multiplying the personal exemption that would be available to each of them if they were both domiciled in this state during the entire taxable year by a fraction the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

SECTION 9. 71.06 (1p) (intro.) of the statutes is amended to read:

71.06 **(1p)** FIDUCIARIES, SINGLE INDIVIDUALS AND HEADS OF HOUSEHOLDS; ~~AFTER 2000~~ 2001 TO 2012. (intro.) The tax to be assessed, levied and collected upon the taxable incomes of all fiduciaries, except fiduciaries of nuclear decommissioning trust or reserve funds, and single individuals and heads of households shall be computed at the following rates for taxable years beginning after December 31, 2000, and before January 1, 2013:

SECTION 10. 71.06 (1q) of the statutes is created to read:

71.06 **(1q)** FIDUCIARIES, SINGLE INDIVIDUALS, AND HEADS OF HOUSEHOLDS; AFTER 2012. (intro.) The tax to be assessed, levied, and collected upon the taxable incomes of all fiduciaries, except fiduciaries of nuclear decommissioning trust or reserve funds, and single individuals and heads of households shall be computed at the following rates for taxable years beginning after December 31, 2012:

(a) On all taxable income from $0 to $7,500, 4.5 percent.

(b) On all taxable income exceeding $7,500 but not exceeding $15,000, 5.95 percent.

(c) On all taxable income exceeding $15,000 but not exceeding $112,500, 6.38 ~~[illegible]~~ percent.

(d) On all taxable income exceeding $112,500 but not exceeding $225,000, 6.75 percent.

(e) On all taxable income exceeding $225,000, 7.75 percent.

SECTION 11. 71.06 (2) (g) (intro.) of the statutes is amended to read:

71.06 **(2)** (g) (intro.) For joint returns, for taxable years beginning after December 31, 2000, and before January 1, 2013:

SECTION 12. 71.06 (2) (h) (intro.) of the statutes is amended to read:

71.06 **(2)** (h) (intro.) For married persons filing separately, for taxable years beginning after December 31, 2000, and before January 1, 2013:

SECTION 13. 71.06 (2) (i) of the statutes is created to read:

71.06 **(2)** (i) For joint returns, for taxable years beginning after December 31, 2012:

1. On all taxable income from $0 to $10,000, 4.5 percent.

2. On all taxable income exceeding $10,000 but not exceeding $20,000, 5.95 percent.

3. On all taxable income exceeding $20,000 but not exceeding $150,000, 6.38 ~~6.45~~ percent.

percent.

4. On all taxable income exceeding $150,000 but not exceeding $300,000, 6.75 percent.

5. On all taxable income exceeding $300,000, 7.75 percent.

SECTION 14. 71.06 (2) (j) of the statutes is created to read:

71.06 **(2)** (j) For married persons filing separately, for taxable years beginning after December 31, 2012:

1. On all taxable income from $0 to $5,000, 4.5 percent.

2. On all taxable income exceeding $5,000 but not exceeding $10,000, 5.95 percent.

3. On all taxable income exceeding $10,000 but not exceeding $75,000, 6.38 percent.

4. On all taxable income exceeding $75,000 but not exceeding $150,000, 6.75 percent.

5. On all taxable income exceeding $150,000, 7.75 percent.

SECTION 15. 71.06 (2e) (a) of the statutes is amended to read:

71.06 **(2e)** (a) For taxable years beginning after December 31, 1998, and before January 1, 2000, the maximum dollar amount in each tax bracket, and the corresponding minimum dollar amount in the next bracket, under subs. (1m) and (2) (c) and (d), and for taxable years beginning after December 31, 1999, <u>and before January 1, 2013,</u> the maximum dollar amount in each tax bracket, and the corresponding minimum dollar amount in the next bracket, under subs. (1n), (1p) (a) to (c), and (2) (e), (f), (g) 1. to 3., and (h) 1. to 3., shall be increased each year by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August 1997, as determined by the federal department of labor, except that for taxable years beginning after December 31, 2000, and before January 1, 2002, the dollar amount in the top bracket under subs. (1p) (c) and (d), (2) (g) 3. and 4. and (h) 3. and 4. shall be increased by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August 1999, as determined by the federal department of labor, except that for taxable years beginning after December 31, 2011, the adjustment may occur only if the resulting amount is greater than the corresponding amount that was calculated for the previous year. ~~Each amount that is revised under this paragraph shall be rounded to the nearest multiple of $10 if the revised amount is not a multiple of $10 or, if the revised amount is a multiple of $5, such an amount shall be increased to the next higher multiple of $10. The department of revenue shall annually adjust the changes in dollar amounts required under this paragraph and incorporate the changes into the income tax forms and instructions.~~

SECTION 16. 71.06 (2e) (b) of the statutes is amended to read:

71.06 **(2e)** (b) For taxable years beginning after December 31, 2009, <u>and before January 1, 2013,</u> the maximum dollar amount in each tax bracket, and the corresponding minimum dollar amount in the next bracket, under subs. (1p) (d) and (2) (g) 4. and (h) 4., and the dollar amount in the top bracket under subs. (1p) (e) and (2) (g) 5. and (h) 5., shall be increased each year by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August 2008, as determined by the federal department of labor, except that for taxable years beginning after December 31, 2011, the adjustment may occur only if the resulting amount is greater than the corresponding amount that was calculated for the previous year. ~~Each amount that is revised under this paragraph shall be rounded to the nearest multiple of $10 if the revised amount is not a multiple of $10 or, if the revised amount is a multiple of $5, such an amount shall be increased to the next higher multiple of $10. The department of revenue shall annually adjust the changes in dollar amounts required under this paragraph and incorporate the changes into the income tax forms and instructions.~~

SECTION 17. 71.06 (2e) (c) of the statutes is created to read:

71.06 **(2e)** (c) Each amount that is revised under this subsection shall be rounded to the nearest multiple of $10 if the revised amount is not a multiple of $10 or, if the revised amount is a multiple of $5, such an amount shall be increased to the next higher multiple of $10. The department of revenue shall annually adjust the changes in dollar amounts required under this subsection and incorporate the changes into the income tax forms and instructions.

SECTION 18. 71.06 (2e) (d) of the statutes is created to read:

71.06 **(2e)** (d) For taxable years beginning after December 31, 2012, the dollar amount in each tax bracket under subs. (1q) and (2) (i) and (j), shall be increased each year by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August 2011, as determined by the federal department of labor, except that for taxable years beginning after December 31, 2015, the adjustment may occur only if the resulting amount is greater than the corresponding amount that was calculated for the previous year.

SECTION 19. 71.06 (2m) of the statutes is amended to read:

71.06 **(2m)** RATE CHANGES. If a rate under sub. (1), (1m), (1n), (1p), (1q), or (2) changes during a taxable year, the taxpayer shall compute the tax for that taxable year by the methods applicable to the federal income tax under section 15 of the ~~internal revenue code~~ Internal Revenue Code.

SECTION 20. 71.06 (2s) (d) of the statutes is amended to read:

71.06 **(2s)** (d) For taxable years beginning after December 31, 2000, with respect to nonresident individuals, including individuals changing their domicile into or from this state, the tax brackets under subs. (1p), (1q), and (2) (g) ~~and~~, (h), (i), and (j) shall be multiplied by a fraction, the numerator of which is Wisconsin adjusted gross income and the denominator of which is federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse, and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If an individual and that individual's spouse are not both domiciled in this state during the entire taxable year, the tax brackets under subs. (1p), (1q), and (2) (g) ~~and~~, (h), (i), and (j) on a joint return shall be multiplied by a fraction, the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

SECTION 21. 71.125 (1) of the statutes is amended to read:

71.125 **(1)** Except as provided in sub. (2), the tax imposed by this chapter on individuals and the rates under s. 71.06 (1), (1m), (1n), (1p), (1q), and (2) shall apply to the Wisconsin taxable income of estates or trusts, except nuclear decommissioning trust or reserve funds, and that tax shall be paid by the fiduciary.

SECTION 22. 71.125 (2) of the statutes is amended to read:

71.125 **(2)** Each electing small business trust, as defined in section 1361 (e) (1) of the Internal Revenue Code, is subject to tax at the highest rate under s. 71.06 (1), (1m), (1n) ~~or~~, (1p), or (1q), whichever taxable year is applicable, on its income as computed under section 641 of the Internal Revenue Code, as modified by s. 71.05 (6) to (12), (19) and (20).

SECTION 23. 71.17 (6) of the statutes is amended to read:

71.17 **(6)** FUNERAL TRUSTS. If a qualified funeral trust makes the election under section 685 of the Internal Revenue Code for federal income tax purposes, that election applies for purposes of this chapter and each trust shall compute its own tax and shall apply the rates under s. 71.06 (1), (1m), (1n) ~~or~~, (1p), or (1q).

SECTION 24. 71.64 (9) (b) (intro.) of the statutes is amended to read:

71.64 **(9)** (b) (intro.) The department shall from time to time adjust the withholding tables to reflect any changes in income tax rates, any applicable surtax or any changes in dollar amounts in s. 71.06 (1), (1m), (1n), (1p), (1q), and (2) resulting from statutory changes, except as follows:

SECTION 25. 71.67 (5) (a) of the statutes is amended to read:

71.67 **(5)** (a) *Wager winnings.* A person holding a license to sponsor and manage races under s. 562.05 (1) (b) or (c) shall withhold from the amount of any payment of pari–mutuel winnings under s. 562.065 (3) (a) or (3m) (a) an amount determined by multiplying the amount of the payment by the highest rate applicable to individuals under s. 71.06 (1) (a) to (c), (1m), (1n) ~~or~~, (1p), or (1q) if the amount of the payment is more than $1,000.

SECTION 26. 71.67 (5m) of the statutes is amended to read:

71.67 **(5m)** WITHHOLDING FROM PAYMENTS TO PURCHASE ASSIGNMENT OF LOTTERY PRIZE. A person that purchases an assignment of a lottery prize shall withhold from the amount of any payment made to purchase the assignment the amount that is determined by multiplying the amount of the payment by the highest rate applicable to individuals under s. 71.06 (1) (a) to (c), (1m), (1n) ~~or~~, (1p), or (1q). Subsection (5) (b), (c) and (d), as it applies to the amounts withheld under sub. (5) (a), applies to the amount withheld under this subsection.

(END)

Shovers, Marc

From: Quinn, Brian D - DOA <Brian.Quinn@wisconsin.gov>
Sent: Tuesday, January 15, 2013 9:29 AM
To: Shovers, Marc
Subject: Re: Income Tax Draft

Marc,

We actually aren't doing the changes to the personal exemption and the standard deduction. Those items should remain unchanged from current law. The only change that will take place is on the marginal rates in the first three brackets. I should have been clearer on that point, but I was tired and was not specific. My apologies.

Thanks.

Brian Quinn
Executive Policy and Budget Analyst
Wisconsin Department of Administration
Division of Executive Budget and Finance
(608)-266-1923
Brian.quinn@wisconsin.gov

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State of Wisconsin
2013 – 2014 LEGISLATURE

LRB-0747/~~P2~~
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DOA:......Quinn, BB0292 – Reduce individual income tax rates~~, increase the personal exemption, reduce standard deduction phase-out rates~~

FOR 2013-2015 BUDGET — NOT READY FOR INTRODUCTION

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AN ACT ...; **relating to:** reducing the individual income tax rates~~, increasing the personal exemption, and reducing the standard deduction phase out rate~~.

Analysis by the Legislative Reference Bureau

TAXATION

INCOME TAXATION

Under current law, there are five income tax brackets for single individuals, certain fiduciaries, heads of households, and married persons. The brackets are indexed for inflation. The rate of taxation under current law for the lowest bracket for single individuals, certain fiduciaries, heads of households, and married persons is 4.6 percent of taxable income; the rate for the second bracket is 6.15 percent; the rate for the third bracket is 6.5 percent; the rate for the fourth bracket is 6.75 percent; and the rate for the highest bracket is 7.75 percent.

With regard to taxable year 2012, for single individuals, certain fiduciaries, and heads of households, for example, the lowest bracket applies to taxable income of over $0 up to $10,570; the second bracket applies to taxable income over $10,570 up to $20,360; the third bracket applies to taxable income over $20,360 up to $158,500; the fourth bracket applies to taxable income over $158,500 up to $232,660; and the fifth, or top, bracket applies to taxable income over $232,660.

For taxable years beginning after December 31, 2012, this bill lowers the rate of taxation in each in each of the first three brackets; the rates in the top two brackets remain unchanged. Under the bill, the tax rate in the lowest bracket is reduced from 4.60 percent to 4.50 percent; the rate in the next higher bracket is reduced from 6.15 percent to 5.95 percent; the rate in the next higher bracket is reduced from 6.50 percent to 6.38 percent. The brackets will continue to be indexed for inflation as is the case under current law.

~~Under current law, an individual income tax personal exemption exists in the~~ amount of $700 for each taxpayer who is required to file an income tax return and $700 for the taxpayer's spouse, except if the spouse is filing separately or as a head of household. A taxpayer may also claim a $700 exemption for each dependent for whom he or she is entitled to claim an exemption under the Internal Revenue Code. In general, an additional exemption of $250 may be claimed by a taxpayer, and spouse, who has reached the age of 65 before the close of the taxable year to which his or her tax return relates.

For taxable years beginning after December 31, 2013, this bill increases the personal exemption to $1,000 for each taxpayer who is required to file an income tax return and $1,000 for the taxpayer's spouse, except if the spouse is filing separately or as a head of household. A taxpayer may also claim a $1,000 exemption for each dependent for whom he or she is entitled to claim an exemption under the Internal Revenue Code. The additional exemption amount, for taxpayers who reach the age of 65, remains unchanged.

Also under current law, the standard income tax deduction has 4 different categories, each of which has a different deduction amount based on income. The categories are based on filing status: single, head of household, married filing jointly, and married filing separately. The maximum standard deduction amounts in each category phase out as income increases, at various phase out rate percentages. This bill reduces the phase out percentages in each category. Under the bill, for taxable years beginning after December 31, 2013, for each category the phase out rate percentages change as follows: For single individuals, from 12 percent to 10.20 percent; for heads of household, from 22.515 percent to 19.138 percent; for married couple filing jointly, from 19.778 percent to 16.811 percent; for ~~married couples filing separately, from 19.778 percent to 16.811 percent.~~

For further information see the ***state*** fiscal estimate, which will be printed as an appendix to this bill.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

~~**SECTION 1.** 71.05~~ (22) (dp) of the statutes is amended to read:

71.05 **(22)** (dp) *Deduction limits, 2000 ~~and thereafter~~ to 2013.* Except as provided in par. (f), for taxable years beginning after December 31, 1999, and before January 1, 2014, the Wisconsin standard deduction is whichever of the following amounts is appropriate. For a single individual who has a Wisconsin adjusted gross income of less than $10,380, the standard deduction is $7,200. For a single individual who has a Wisconsin adjusted gross income of at least $10,380, the standard deduction is the amount obtained by subtracting from $7,200 12% of Wisconsin adjusted gross income in excess of $10,380 but not less than $0. For a head of household who has a Wisconsin adjusted gross income of less than $10,380, the standard deduction is $9,300. For a head of household who has a Wisconsin adjusted gross income of at least $10,380, the standard deduction is the amount obtained by subtracting from $9,300 22.515% of Wisconsin adjusted gross income in excess of $10,380, but not less than $0, until the adjusted gross income amount at which the standard deduction is equal to the standard deduction for a single individual at the same adjusted gross income amount. For a head of household who has a Wisconsin adjusted gross income of more than this amount, the standard deduction shall be calculated as if the head of household were a single individual. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of less than $14,570, the standard deduction is $12,970. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of at least $14,570, the standard deduction is the amount obtained by subtracting from $12,970 19.778% of aggregate Wisconsin adjusted gross income in excess of $14,570 but not less than $0. For a married individual filing separately who has a Wisconsin adjusted gross income of less than $6,920, the standard deduction is $6,160. For a married individual filing separately who has a Wisconsin adjusted gross income of at least $6,920, the standard deduction is the amount obtained by subtracting from $6,160 19.778% of Wisconsin adjusted gross income in excess of $6,920 but not less than $0. The secretary of revenue shall prepare a table under which deductions under this paragraph shall be determined. That table shall be published in the department's instructional booklets.

SECTION 2. 71.05 (22) (dq) of the statutes is created to read:

71.05 **(22)** (dq) *Deduction limits, 2014 and thereafter.* Except as provided in par. (f), for taxable years beginning after December 31, 2013, the Wisconsin standard deduction is whichever of the following amounts is appropriate. For a single individual who has a Wisconsin adjusted gross income of less than $10,380, the standard deduction is $7,200. For a single individual who has a Wisconsin adjusted gross income of at least $10,380, the standard deduction is the amount obtained by subtracting from $7,200 10.20 percent of Wisconsin adjusted gross income in excess of $10,380 but not less than $0. For a head of household who has a Wisconsin adjusted gross income of less than $10,380, the standard deduction is $9,300. For a head of household who has a Wisconsin adjusted gross income of at least $10,380, the standard deduction is the amount obtained by subtracting from $9,300 19.138 percent of Wisconsin adjusted gross income in excess of $10,380, but not less than $0, until the adjusted gross income amount at which the standard deduction is equal to the standard deduction for a single individual at the same adjusted gross income amount. For a head of household who has a Wisconsin adjusted gross income of more than this amount, the standard deduction shall be calculated as if the head of household were a single individual. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of less than $14,570, the standard deduction is $12,970. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of at least $14,570, the standard deduction is the amount obtained by subtracting from $12,970 16.811 percent of aggregate Wisconsin adjusted gross income in excess of $14,570 but not less than $0. For a married individual filing separately who has a Wisconsin adjusted gross income of less than $6,920, the standard deduction is $6,160. For a married individual filing separately who has a Wisconsin adjusted gross income of at least $6,920, the standard deduction is the amount obtained by subtracting from $6,160 16.811 percent of Wisconsin adjusted gross income in excess of $6,920 but not less than $0. The secretary of revenue shall prepare a table under which deductions under this paragraph shall be determined. That table shall be published in the department's instructional booklets.

SECTION 3. 71.05 (22) (dt) of the statutes is amended to read:

71.05 **(22)** (dt) *Standard deduction indexing, 2001 and thereafter.* For taxable years beginning after December 31, 2000, the dollar amounts of the standard deduction that is allowable under par. (dp) <u>or (dq)</u> and all of the dollar amounts of Wisconsin adjusted gross income under par. (dp) <u>or (dq)</u> shall be increased each year by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August 1999, as determined by the federal department of labor, except that for taxable years beginning after December 31, 2011, the adjustment may occur only if the resulting amount is greater than the corresponding amount that was calculated for the previous year. Each amount that is revised under this paragraph shall be rounded to the nearest multiple of $10 if the revised amount is not a multiple of $10 or, if the revised amount is a multiple of $5, such an amount shall be increased to the next higher multiple of $10. The department of revenue shall annually adjust the changes in dollar amounts required under this paragraph and incorporate the changes into the income tax forms and instructions.

SECTION 4. 71.05 (22) (f) 4. a. of the statutes is amended to read:

71.05 **(22)** (f) 4. a. For taxable years beginning after December 31, 1997, in the case of a taxpayer with respect to whom an exemption under sub. (23) (b) ~~2.~~ or (be) 2. is allowable to another person, the Wisconsin standard deduction shall be the lesser of the amount under subd. 4. b. or one of the amounts calculated under subd. 4. c., whichever amount under subd. 4. c. is greater.

SECTION 5. 71.05 (22) (f) 4. b. of the statutes is amended to read:

71.05 **(22)** (f) 4. b. The standard deduction that may be claimed by an individual under par. (dm) ~~or~~, (dp), or (dq), based on the individual's filing status.

SECTION 6. 71.05 (23) (b) (intro.) of the statutes is amended to read:

71.05 **(23)** (b) (intro.) For taxable years that begin after December 31, 2000, and before January 1, 2014:

SECTION 7. 71.05 (23) (be) of the statutes is created to read:

71.05 **(23)** (be) For taxable years that begin after December 31, 2013:

1. A personal exemption of $1,000 if the taxpayer is required to file a return under s. 71.03 (2) (a) 1. or 2. and $1,000 for the taxpayer's spouse, except if the spouse is filing separately or as a head of household.

2. An exemption of $1,000 for each individual for whom the taxpayer is entitled to an exemption for the taxable year under section 151 (c) of the Internal Revenue Code.

3. An additional exemption of $250 if the taxpayer has reached the age of 65 before the close of the taxable year to which his or her tax return relates and $250 for the taxpayer's spouse if he or she has reached the age of 65 before the close of the taxable year to which his or her tax return relates, except if the spouse is filing separately or as a head of household.

SECTION 8. 71.05 (23) (c) of the statutes is amended to read:

71.05 **(23)** (c) With respect to persons who change their domicile into or from this state during the taxable year and nonresident persons, personal exemptions under pars. (a) ~~and~~, (b), and (be) shall be limited to the fraction of the amount so determined that Wisconsin adjusted gross income is of federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If a person and that person's spouse are not both domiciled in this state during the entire taxable year, their personal exemptions on a joint return are determined by multiplying the personal exemption that would be available to each of them if they were both domiciled in this state during the entire taxable year by a fraction the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

SECTION 9. 71.06 (1p) (intro.) of the statutes is amended to read:

71.06 **(1p)** FIDUCIARIES, SINGLE INDIVIDUALS AND HEADS OF HOUSEHOLDS; ~~AFTER 2000~~ 2001 TO 2012. (intro.) The tax to be assessed, levied and collected upon the taxable incomes of all fiduciaries, except fiduciaries of nuclear decommissioning trust or reserve funds, and single individuals and heads of households shall be computed at the following rates for taxable years beginning after December 31, 2000, and before January 1, 2013:

SECTION 10. 71.06 (1q) of the statutes is created to read:

71.06 **(1q)** FIDUCIARIES, SINGLE INDIVIDUALS, AND HEADS OF HOUSEHOLDS; AFTER 2012. (intro.) The tax to be assessed, levied, and collected upon the taxable incomes of all fiduciaries, except fiduciaries of nuclear decommissioning trust or reserve funds

funds, and single individuals and heads of households shall be computed at the following rates for taxable years beginning after December 31, 2012:

(a) On all taxable income from $0 to $7,500, 4.5 percent.

(b) On all taxable income exceeding $7,500 but not exceeding $15,000, 5.95 percent.

(c) On all taxable income exceeding $15,000 but not exceeding $112,500, 6.38 percent.

(d) On all taxable income exceeding $112,500 but not exceeding $225,000, 6.75 percent.

(e) On all taxable income exceeding $225,000, 7.75 percent.

SECTION 11. 71.06 (2) (g) (intro.) of the statutes is amended to read:

71.06 **(2)** (g) (intro.) For joint returns, for taxable years beginning after December 31, 2000, and before January 1, 2013:

SECTION 12. 71.06 (2) (h) (intro.) of the statutes is amended to read:

71.06 **(2)** (h) (intro.) For married persons filing separately, for taxable years beginning after December 31, 2000, and before January 1, 2013:

SECTION 13. 71.06 (2) (i) of the statutes is created to read:

71.06 **(2)** (i) For joint returns, for taxable years beginning after December 31, 2012:

1. On all taxable income from $0 to $10,000, 4.5 percent.

2. On all taxable income exceeding $10,000 but not exceeding $20,000, 5.95 percent.

3. On all taxable income exceeding $20,000 but not exceeding $150,000, 6.38 percent.

4. On all taxable income exceeding $150,000 but not exceeding $300,000, 6.75 percent.

5. On all taxable income exceeding $300,000, 7.75 percent.

SECTION 14. 71.06 (2) (j) of the statutes is created to read:

71.06 **(2)** (j) For married persons filing separately, for taxable years beginning after December 31, 2012:

1. On all taxable income from $0 to $5,000, 4.5 percent.

2. On all taxable income exceeding $5,000 but not exceeding $10,000, 5.95 percent.

3. On all taxable income exceeding $10,000 but not exceeding $75,000, 6.38 percent.

4. On all taxable income exceeding $75,000 but not exceeding $150,000, 6.75 percent.

5. On all taxable income exceeding $150,000, 7.75 percent.

SECTION 15. 71.06 (2e) (a) of the statutes is amended to read:

71.06 **(2e)** (a) For taxable years beginning after December 31, 1998, and before January 1, 2000, the maximum dollar amount in each tax bracket, and the corresponding minimum dollar amount in the next bracket, under subs. (1m) and (2) (c) and (d), and for taxable years beginning after December 31, 1999, <u>and before January 1, 2013,</u> the maximum dollar amount in each tax bracket, and the corresponding minimum dollar amount in the next bracket, under subs. (1n), (1p) (a) to (c), and (2) (e), (f), (g) 1. to 3., and (h) 1. to 3., shall be increased each year by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August 1997, as determined by the federal department of labor, except that for taxable years beginning after December 31, 2000, and before January 1, 2002, the dollar amount in the top bracket under subs. (1p) (c) and (d), (2) (g) 3. and 4. and (h) 3. and 4. shall be increased by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August 1999, as determined by the federal department of labor, except that for taxable years beginning after December 31, 2011, the adjustment may occur only if the resulting amount is greater than the corresponding amount that was calculated for the previous year. ~~Each amount that is revised under this paragraph shall be rounded to the nearest multiple of $10 if the revised amount is not a multiple of $10 or, if the revised amount is a multiple of $5, such an amount shall be increased to the next higher multiple of $10. The department of revenue shall annually adjust the changes in dollar amounts required under this paragraph and incorporate the changes into the income tax forms and instructions.~~

SECTION 16. 71.06 (2e) (b) of the statutes is amended to read:

71.06 **(2e)** (b) For taxable years beginning after December 31, 2009, <u>and before January 1, 2013,</u> the maximum dollar amount in each tax bracket, and the corresponding minimum dollar amount in the next bracket, under subs. (1p) (d) and (2) (g) 4. and (h) 4., and the dollar amount in the top bracket under subs. (1p) (e) and (2) (g) 5. and (h) 5., shall be increased each year by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August 2008, as determined by the federal department of labor, except that for taxable years beginning after December 31, 2011, the adjustment may occur only if the resulting amount is greater than the corresponding amount that was calculated for the previous year. ~~Each amount that is revised under this paragraph shall be rounded to the nearest multiple of $10 if the revised amount is not a multiple of $10 or, if the revised amount is a multiple of $5, such an amount shall be increased to the next higher multiple of $10. The department of revenue shall annually adjust the changes in dollar amounts required under this paragraph and incorporate the changes into the income tax forms and instructions.~~

SECTION 17. 71.06 (2e) (c) of the statutes is created to read:

71.06 **(2e)** (c) Each amount that is revised under this subsection shall be rounded to the nearest multiple of $10 if the revised amount is not a multiple of $10 or, if the revised amount is a multiple of $5, such an amount shall be increased to the next higher multiple of $10. The department of revenue shall annually adjust the changes in dollar amounts required under this subsection and incorporate the changes into the income tax forms and instructions.

SECTION 18. 71.06 (2e) (d) of the statutes is created to read:

71.06 **(2e)** (d) For taxable years beginning after December 31, 2012, the dollar amount in each tax bracket under subs. (1q) and (2) (i) and (j), shall be increased each year by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August 2011, as determined by the federal department of labor, except that for taxable years beginning after December 31, 2015, the adjustment may occur only if the resulting amount is greater than the corresponding amount that was calculated for the previous year.

SECTION 19. 71.06 (2m) of the statutes is amended to read:

71.06 **(2m)** RATE CHANGES. If a rate under sub. (1), (1m), (1n), (1p), (1q), or (2) changes during a taxable year, the taxpayer shall compute the tax for that taxable year by the methods applicable to the federal income tax under section 15 of the ~~internal revenue code~~ Internal Revenue Code.

SECTION 20. 71.06 (2s) (d) of the statutes is amended to read:

71.06 **(2s)** (d) For taxable years beginning after December 31, 2000, with respect to nonresident individuals, including individuals changing their domicile into or from this state, the tax brackets under subs. (1p), (1q), and (2) (g) ~~and~~, (h), (i), and (j) shall be multiplied by a fraction, the numerator of which is Wisconsin adjusted gross income and the denominator of which is federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse, and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If an individual and that individual's spouse are not both domiciled in this state during the entire taxable year, the tax brackets under subs. (1p), (1q), and (2) (g) ~~and~~, (h), (i), and (j) on a joint return shall be multiplied by a fraction, the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

SECTION 21. 71.125 (1) of the statutes is amended to read:

71.125 **(1)** Except as provided in sub. (2), the tax imposed by this chapter on individuals and the rates under s. 71.06 (1), (1m), (1n), (1p), (1q), and (2) shall apply to the Wisconsin taxable income of estates or trusts, except nuclear decommissioning trust or reserve funds, and that tax shall be paid by the fiduciary.

SECTION 22. 71.125 (2) of the statutes is amended to read:

71.125 **(2)** Each electing small business trust, as defined in section 1361 (e) (1) of the Internal Revenue Code, is subject to tax at the highest rate under s. 71.06 (1), (1m), (1n) ~~or~~, (1p), or (1q), whichever taxable year is applicable, on its income as computed under section 641 of the Internal Revenue Code, as modified by s. 71.05 (6) to (12), (19) and (20).

SECTION 23. 71.17 (6) of the statutes is amended to read:

71.17 **(6)** FUNERAL TRUSTS. If a qualified funeral trust makes the election under section 685 of the Internal Revenue Code for federal income tax purposes, that election applies for purposes of this chapter and each trust shall compute its own tax and shall apply the rates under s. 71.06 (1), (1m), (1n) ~~or~~, (1p), or (1q).

SECTION 24. 71.64 (9) (b) (intro.) of the statutes is amended to read:

71.64 **(9)** (b) (intro.) The department shall from time to time adjust the withholding tables to reflect any changes in income tax rates, any applicable surtax or any changes in dollar amounts in s. 71.06 (1), (1m), (1n), (1p), (1q), and (2) resulting from statutory changes, except as follows:

SECTION 25. 71.67 (5) (a) of the statutes is amended to read:

71.67 **(5)** (a) *Wager winnings.* A person holding a license to sponsor and manage races under s. 562.05 (1) (b) or (c) shall withhold from the amount of any payment of pari–mutuel winnings under s. 562.065 (3) (a) or (3m) (a) an amount determined by multiplying the amount of the payment by the highest rate applicable to individuals under s. 71.06 (1) (a) to (c), (1m), (1n) ~~or~~, (1p), or (1q) if the amount of the payment is more than $1,000.

SECTION 26. 71.67 (5m) of the statutes is amended to read:

71.67 **(5m)** WITHHOLDING FROM PAYMENTS TO PURCHASE ASSIGNMENT OF LOTTERY PRIZE. A person that purchases an assignment of a lottery prize shall withhold from the amount of any payment made to purchase the assignment the amount that is determined by multiplying the amount of the payment by the highest rate applicable to individuals under s. 71.06 (1) (a) to (c), (1m), (1n) ~~or~~, (1p), or (1q). Subsection (5) (b), (c) and (d), as it applies to the amounts withheld under sub. (5) (a), applies to the amount withheld under this subsection.

(END)

Shovers, Marc

From: Quinn, Brian D - DOA <Brian.Quinn@wisconsin.gov>
Sent: Monday, January 28, 2013 9:38 AM
To: Shovers, Marc
Subject: FW: Income Tax Rate Cut Draft

Marc,

This is what I got back from DOR.

Let me know if you need additional information from them. If need be you can go ahead and call Mike Wagner directly on it for additional input from their technical staff.

Thanks,

Brian

From: Wagner, Michael W - DOR
Sent: Monday, January 28, 2013 9:36 AM
To: Quinn, Brian D - DOA
Subject: RE: Re: Income Tax Rate Cut Draft

Brian,

Marc asked which year that DOR prefers, and thus which sections that DOR recommends be amended. Both sections should be amended since the top bracket with the 7.75% rate is in 71.06 (2e) (b) and the other brackets are in 71.06 (2e) (a)

Marcy Stock provided me with the following recommendation:

Section 71.06(2e)(a) should be amended to include subs. (1q)(a) to (c), and (2)(i)1. to 3. and (j)1. to 3.

Section 71.06(2e)(b) should be amended to include subs. (1q)(d) and (e), and (2)(i) 4. and 5. and (j)4. and 5.

Please let me know if you need anything else.

-Mike

From: Quinn, Brian D - DOA
Sent: Friday, January 25, 2013 2:12 PM
To: Wagner, Michael W - DOR
Subject: FW: Re: Income Tax Rate Cut Draft

This is what I got back from Marc Shovers. I'm pretty sure I know what the answer is, but I didn't want to speak for your department.

From: Shovers, Marc [mailto:Marc.Shovers@legis.wisconsin.gov]
Sent: Friday, January 25, 2013 1:59 PM
To: Quinn, Brian D - DOA
Subject: RE: Re: Income Tax Rate Cut Draft

Hey Brian. If DOR would prefer that way it's fine with me, but which statute would they like me to amend?

Section 71.06 (2e) (a) uses August 1997 as the base year, and applies to s. 71.06 (1n), (1p) (a) to (c), and (2) (e), (f), (g) 1. to 3. and (h) 1. to 3.

Section 71.06 (2e) (b) uses August 2008 as the base year, and applies to s. 71.06 (1p) (d) and (e) and (2) (g) 4. and 5. and (h) 4. and 5.

I'll just add in subs. (1q) and (2) (i) and (j) to either sub. (2e) (a) or (b), but I don't know which base year DOR prefers. That was one of the reasons I just put the new brackets in created sub. (2e) (d), with August 2011 as the base year.

Thanks.

Marc

From: Quinn, Brian D - DOA [mailto:Brian.Quinn@wisconsin.gov]
Sent: Thursday, January 24, 2013 1:16 PM
To: Shovers, Marc
Subject: Re: Income Tax Rate Cut Draft

Marc,

DOR feels that rather than recreate the indexing provisions, the best way to handle this is to leave the current indexing provisions in place as it is under current law and have the new rate schedule take effect in Tax Year 2013. While the new bracket in 2009 Act 28 required new indexing provisions since there was a new bracket added, this is just a change in what rates apply beginning in 2013 so there's no need to rip up the indexing provisions and recreate.

Do these instructions make sense? If not, let me know.

Thanks.

Brian Quinn
Executive Policy and Budget Analyst
Wisconsin Department of Administration
Division of Executive Budget and Finance
(608)-266-1923
Brian.quinn@wisconsin.gov
